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SUBJECT: SCENESETTER FOR PRESIDENT ARIAS VISIT

Classified By: Ambassador Mark Langdale for reason 1.4(d)

SUMMARY

¶1. (C) President Arias and his administration are making progress on the ambitious agenda outlined in his inaugural address. In October, long-planned, union-led national anti-CAFTA protests fizzled, a costly dockworkers' strike in a major port was resolved, and the legislature set a date certain (December 12) to move CAFTA-DR out of committee and to the full assembly for action. CID-Gallup polls show a 60 percent personal approval rating for Arias, with 50 percent describing his presidential performance as "good or very good." Serious challenges remain, however. Costa Ricans have less confidence in their governing institutions, and increasingly suffer the effects of underinvestment in the nation's infrastructure, domestic security apparatus and education system. While a slim majority of the population (and a solid majority in the legislature) favors CAFTA-DR, the ratification and implementation process is hyper-legalistic and torturously slow.

¶2. (C) Against this backdrop, Arias comes to Washington to seek USG understanding of Costa Rica's "unique" political tradition which places a premium on consensus (thus mandating his deliberate approach to ratifying CAFTA-DR). On international issues, Arias will seek recognition of Costa Rica's "responsible" foreign policy, centered on initiatives such as the Costa Rica Consensus and the GOCR's 2008-2010 UNSC candidacy. While differing on approaches to the Costa Rica Consensus and the UN Arms Transfer Treaty, the U.S. and Costa Rica continue to be partners on consolidating democracy and encouraging prosperity in the region, fighting transnational threats such as drug trafficking and trafficking in persons, and protecting the environment. The USG should urge Arias to continue moving forward on the ambitious agenda laid out at his inaugural address, which is consistent with the four pillars of USG policy in the hemisphere. With focused and determined leadership, President Arias can position Costa Rica to achieve developed country status by its bicentennial in 2021. END SUMMARY.

ITINERARY

¶3. (SBU) This is Arias's first visit to Washington this term as president. He visited as a presidential candidate in June 2005. In September 2006, he visited Florida for the Miami Herald's Conference of the Americas and Colorado for a Nobel laureate, "PeaceJam" en route to the UNGA. In addition to meeting with the President, Commerce Secretary Gutierrez and

members of Congress, we understand that Arias,s December 3-6 schedule includes meetings with officials from the IMF, IBRD, IBD and MCC. He will also participate in events hosted by the Carnegie Endowment, Council of the Americas, and U.S. Chamber of Commerce, and address the OAS Permanent Council.

SERIOUS CHALLENGES AT HOME

¶4. (C) Returning to office in May after a 16-year hiatus, President Oscar Arias faces a number of serious challenges. Costa Rica,s well-developed democracy, history of stability and relative prosperity (per capita income is approximately USD 4,700) continue to be strengths, but portions of the foundation of their past success are crumbling. With the previous administration accomplishing very little and three former presidents facing corruption allegations, Costa Ricans have less confidence in their governing institutions. They also suffer the effects of the nation,s creaky infrastructure and increased crime. Only 35 percent of students entering the public school system graduate from high school. The judicial system is broken. For example, of 37,000 robbery cases opened in 2005, only three percent ended with a conviction. In World Bank rankings, Costa Rica places 157th out of 175 in countries measured for protecting investors, and 114th in enforcing contracts. On other key measures of international competitiveness, Costa Rica is also slipping. The country dropped from 99th to 105th overall on the World Bank,s 175-country "Doing Business Index" for 2006, and in the key measure of paying taxes, ranked 160th out of 175.

AMBITIOUS AGENDA; EARLY TESTS OF LEADERSHIP

¶5. (SBU) In his inaugural address, Arias laid out an agenda that went right to the heart of these problems, based on the twin pillars of fiscal reform (overhauling the tax system) and a more open and competitive economy (enacting CAFTA-DR reforming the telecom and energy sectors, creating jobs). These reforms should provide Costa Rica the resources to modernize infrastructure, increase spending on education, modernize its institutions and invest in a more robust domestic security apparatus. Along with conducting a principled foreign policy (see below) Arias,s inaugural goals are fully consistent with the four pillars of USG policy in the hemisphere: consolidate democracy, promote prosperity, invest in people and protect the democratic state.

¶6. (C) His administration, although talented, got off to a slow start. The president was criticized for traveling too much out of the country and for having a detached leadership style. Most newly appointed cabinet members expressed surprise and dismay at the abysmal state of the agencies they inherited. Minister of the Presidency Rodrigo Arias (the president's younger brother) was especially hampered by the make-up of the new legislative assembly. The diffused results of the 2006 elections significantly changed the political landscape, electing eight parties to the 57-member legislative assembly and forcing the Arias administration to learn how to combine with other parties to form a working majority. (Arias,s National Liberation Party holds only 25 of the 57 seats.)

¶7. (U) By October, the picture had brightened. Long-planned, union-led national anti-CAFTA protests fizzled, a costly dockworkers, strike in the major Caribbean port of Limon was resolved, and the legislative assembly set a date certain (December 12) for the committee vote which would move CAFTA to the full assembly for action. CID-Gallup polls show a 60 percent personal approval rating for Arias, with 50 percent describing his presidential performance as "good or very good."

PRINCIPLED POLICY ABROAD

¶8. (C) President Arias still views Costa Rica as an exemplar for Central America and a leader on principled global issues such as disarmament, social development, environmental protection and international law. Under Arias, Costa Rica continues to think of itself as in Central America, but not of it, and is thus reluctant to engage deeply in regional cooperation efforts, especially on defense and security issues. Earlier in his administration, Arias was one of the most vocal (and eloquent) critics of the Castro regime. Over the last month, he has begun to take a lower profile. For example, he initially committed to the Ambassador to raise Cuba publicly during the November Ibero-American Summit in Uruguay, but did not do so. According to FM Bruno Stagno, this was a) because Arias was feeling "alone" on the issue, as other Latin leaders are reluctant to speak out, and b) so as not to invite criticism which might jeopardize Costa Rica's prospects to be elected to the UN Security Council (UNSC) for the 2008-2010 term.

¶9. (C) Stagno has described the Arias Administration's foreign policy priorities (in sequence) as 1) obtaining UN support for an international treaty on conventional arms transfers, 2) being elected in 2007 to the 2008-2010 GRULAC seat on the UNSC, 3) obtaining international (and USG) support for the San Jose Consensus (enhanced economic assistance and debt relief to "responsible" middle-income developing countries), and 4) building a new, international "rain forest" coalition, including countries such as Papua New Guinea and the Congo. The GOCR views a UNSC seat as a key prerequisite to achieving the other three objectives. Costa Rican foreign policy seems to be geared increasingly towards "going with the flow" in the UN, to avoid frictions and maximize election prospects. The UNSC election is coloring much of Costa Rica's foreign policy calculus.

U.S. OBJECTIVES

¶10. (C) GENERAL: The USG should encourage President Arias to pursue his goal of positioning Costa Rica to become a developed country by its bicentennial in 2021. With focused and determined leadership, the Arias administration can achieve the president's inaugural policy objectives by making the reforms necessary to strengthen Costa Rica's position as a political and economic leader in Central America. The USG shares this vision. We want Costa Rica to succeed and be the best example of prosperity for the region. Because it is smaller, Costa Rica can "turn faster," but it must wean itself from a mindset that still looks first to traditional foreign assistance for development. Costa Rica will successfully move up to developed country status by completing needed domestic reform that will stimulate private investment and enhance support from IFI's.

¶11. (C) CAFTA-DR: The Arias administration has made this a top priority, and should be encouraged to keep moving. The government has the votes for ratification, which should be completed by April 2007. Full implementation will take longer. Thirteen legal reforms must be enacted to make Costa Rican laws CAFTA-DR-compliant by the March 1, 2008 implementation deadline. Arias should be reminded of this deadline. If raised, the USG is facilitating (via Colombia) anti-riot training for Costa Rican security force personnel, in advance of the next round of anti-CAFTA protests, expected to coincide with the first legislative assembly vote between mid-January and mid-February.

¶12. (C) FISCAL REFORM: This is another essential element in Arias's domestic agenda. In the 2006 World Bank "Doing Business Index," Costa Rica fell to 160 (out of 175) in paying taxes. Creating and enforcing a sustainable tax structure will enable the GOCR to modernize its infrastructure while supporting social initiatives. The USG has provided Treasury Department experts to advise the Ministry of Finance in tax administration and, more recently,

budgeting, and has helped bring third-country experts (such as former Estonian PM Mart Laar) to Costa Rica.

¶13. (C) COMPETITIVENESS: In his inaugural agenda, Arias vowed to "promote policies for sustained improvements in competitiveness." The USG should encourage these reforms. Some key pieces are already in place. The GOCR's current concessions law is based upon the successful Chilean model and amendments currently proposed will improve it. The recent concessions granted to run facilities at Costa Rican Pacific port of Caldera are a success story and a model for the GOCR. But, the government's mishandling of the San Jose Airport concession with Alterra over the past five years is of serious concern. Focusing on reforms that improve Costa Rica's competitiveness rankings with the World Bank are essential to attracting greater foreign investment and creating a more dynamic economic environment.

¶14. (C) CUBA: This is not the time to say less. The Cuban people need continued statements from credible regional leaders like Arias on the need for democratic change and support for human rights in Cuba. Such statements are fully consistent with Costa Rica's well-deserved reputation as a strong advocate for democracy and human rights around the globe, and are in keeping with the principled foreign policy outlined in Arias's inaugural address. Arias should be encouraged to advocate such statements within the appropriate multilateral organizations.

¶15. (C) NICARAGUA: Arias has taken a careful wait-and-see approach following Daniel Ortega's election as president. With more than 300,000 Nicaraguans estimated to be in Costa Rica, and relying heavily on Nicaraguan labor to harvest coffee and perform other manual labor, the GOCR believes that bilateral relations with its neighbor must be handled very carefully. Even so, the USG should urge Costa Rica to work quietly with other democracies to help keep Ortega in line

¶16. (C) REGIONAL SECURITY: Arias should be commended for excellent bilateral counternarcotics cooperation. Over 25 tons of cocaine have been seized in Costa Rican territory in 2006, mostly at sea. Costa Rican authorities are honest and reliable partners in combating transnational crime with very limited resources. At the same time, the GOCR continues to harbor strong reluctance to participate in anything that suggests a "militarization" of Costa Rica. The USG should stress that regional cooperation with security forces is not "militarization," but is the only realistic way to confront regional security threats, including transnational crimes. USG-supplied military equipment and training has been essential to improving Costa Rica's security forces. The USG seeks a healthy regional dialogue, via the Central American Integration System (SICA in Spanish), on security issues of mutual concern such as organized crime, gangs and narcotrafficking.

ARIAS,S OBJECTIVES

¶17. (SBU) GENERAL: On domestic issues, Arias will seek USG understanding of Costa Rica's "unique" political tradition which places a premium on consensus and protecting the social welfare system. This has mandated his careful, deliberate approach to ratifying CAFTA (see above). On international issues, Arias will seek recognition of Costa Rica's "responsible" foreign policy, centered on initiatives such as the Costa Rica Consensus and the GOCR's 2008-2010 UNSC candidacy.

¶18. (SBU) COSTA RICA CONSENSUS: This initiative is based on the premise that Costa Rica and other middle-income developing countries have been "unfairly" cut off from the large foreign assistance flows of the past. Arias proposes more aid and debt relief for countries that invest more for social programs and less for armaments. As donor countries increase development assistance to the 0.7 percent of GDP target set in the UN's Millennium Declaration, countries on the proper development path should be rewarded. According to

FM Stagno, the GOCR seeks to build global support for the initiative in time for a summit in 2008 or 2009. Related to this, Arias may also urge that some portion of the Millennium Challenge Corporation (MCC) funds for Nicaragua be made available for Costa Rica, in light of the large population of Nicaraguan residents "south of their border," or that MCC per capita income limitations (which exclude Costa Rica) be relaxed. Costa Rica is not eligible for MCC funds designated for Nicaragua, however, since these resources are targeted for infrastructure, environmental, business development and legal projects within Nicaragua.

¶19. (C) USG and GOCR perspectives clearly differ on foreign aid issues. Relying on international assistance is "old think" from the 1980,s, and will not generate anywhere near the benefits possible from direct foreign investment. Arias may need to be reminded that as a "sustaining partner," we perceive Costa Rica to be well-placed to attract the foreign investment needed to modernize the country, fuel continued development and support Arias,s agenda. For Costa Rica, the future is based on trade, not aid. The USG will continue to offer technical assistance on regional security issues and on the implementation of further economic reforms.

¶20. (SBU) USG ASSISTANCE: Arias should be aware that USG assistance has not been cut off completely. The October 2006 waiver of ASPA restrictions on International Military Education and Training (IMET) is permanent, and will mean additional (although small-scale) funding to assist GOCR security forces in the future. Tropical Forest Conservation Act (TFCOA) eligibility, being considered by Treasury, may lead to some targeted debt forgiveness for Costa Rica. As a CAFTA-DR signatory, the GOCR is also eligible for a share of nearly USD 40 million in regional trade capacity building funds.

¶21. (SBU) UN ARMS TRANSFER TREATY (ATT): Arias may seek to persuade the USG to modify its direct opposition to this initiative. On this issue, the USG and GOCR may have to agree to disagree. As a world leader in reducing the sales of illicit arms, the USG continues to believe that to be universal, and to include all major arms producers including Russia and China, an ATT would be a "lowest-common-denominator" agreement, and therefore not effective. If Costa Rica is concerned about arms transfers, however, the GOCR should be encouraged to speak out against the destabilizing and disproportionate arms build up in Venezuela.

¶22. (C) UNSC ELECTION FOR 2008-2010: Arias may ask for USG support, concerned that Venezuela will again run, and that having a Central American nation on the Council now (Panama) could jeopardize Costa Rican prospects for 2008. The GOCR should be encouraged not to mute its principled support for human rights as the 2008 UNSC election campaign continues. The USG seeks Costa Rican help to focus attention on human rights violations in countries such as Iran and Belarus, in addition to Cuba.

¶23. (SBU) U.S. CONGRESSIONAL ELECTIONS: Arias may point to the election results as suggesting a change in USG policy, e.g., more attention (and resources) for Latin America and more flexibility on trade agreements and immigration issues. Based on early indications, however, the effect may be just the opposite, especially on trade issues. This underscores the need for Costa Rica to ratify and implement CAFTA-DR as soon as possible.

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